

MEMO# 29051

June 4, 2015

ICI Letter to IRS on Adviser Contributions to Money Market Funds

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TO:

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BROKER/DEALER ADVISORY COMMITTEE No. 24-15
MONEY MARKET FUNDS ADVISORY COMMITTEE No. 18-15
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TRANSFER AGENT ADVISORY COMMITTEE No. 24-15
VARIABLE INSURANCE PRODUCTS ADVISORY COMMITTEE No. 12-15

RE:

ICI LETTER TO IRS ON ADVISER CONTRIBUTIONS TO MONEY MARKET FUNDS

The Institute has submitted the attached letter to the Internal Revenue Service ("IRS") seeking guidance regarding the tax treatment of contributions by money market fund investment advisers to their funds in connection with implementation of the money market fund rule adopted by the Securities and Exchange Commission ("SEC") last summer (the "SEC Rule"). [\[1\]](#) These contributions may be made for a variety of reasons, if the shadow net asset value ("NAV") of the money market fund is below \$1.0000.

The tax treatment by the funds of such contributions is uncertain. If the contribution is treated as short-term capital gain, and the money market fund does not have sufficient losses to offset the gain, the fund could have net capital gain that it must either distribute to shareholders or retain and be subject to corporate level tax. The amount of the distribution or tax paid would reduce the NAV to below the intended \$1.0000 level, negating the purpose of the contribution.

If the payment from the adviser is treated as a non-shareholder contribution, it would result in no immediate gain or income to the fund. It would result in a basis reduction, however, in any assets held by the fund twelve months after the contribution is received. The fund thus would have capital gain equal to the amount of the contribution when those assets are sold. Again, any resulting net gain recognized would require the fund to make a distribution or retain and pay tax on all or part of such gain, which would negatively affect the NAV.

As neither of these approaches would allow all of the contributed amount to remain in the fund, the Institute is asking the IRS to issue a revenue procedure that provides a safe harbor for the treatment of adviser contributions. Under this guidance, the IRS would not challenge a RIC's treatment of an adviser contribution as resulting in (1) no income or gain to the fund, and (2) no reduction in the basis of the fund assets under section 362(c). To avoid any unintended consequences, we suggest that the requested revenue procedure be limited to (i) money market funds that comply with SEC Rule 2a-7, and (ii) contributions made prior to the compliance date for the floating NAV SEC Rule (October 16, 2016).

Karen Lau Gibian
Associate General Counsel – Tax Law

[Attachment](#)

endnotes

[1] See Institute Memorandum [dated July 31, 2014](#).

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